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March 24, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Rm. 222
Washington, D.C. 20554

Re: CC Docket Nos. 96-45 and 96-262

Dear Ms. Salas:

Please be advised that yesterday, March 23, 1998, on behalf of Bell Atlantic, Robert McDonnell, Edward Lowry, and the undersigned met with Richard Lerner, Chris Barnekov, and John Scott of the Competitive Pricing Division to discuss material related to the two above captioned proceedings.

Attached is a copy of the material used during the meeting. Please enter this material into the appropriate proceedings as required.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Attachment

cc: R. Lerner
C. Barnekov
J. Scott

Access Reform/Universal Service Funding Impact Analysis

March 23, 1998

What Happened on January 1?

Updated Impact Results

- Annual Funding Levels
 - » USF - Education \$1200M
 - » USF - Healthcare \$ 100M
 - » USF - High Cost \$1736M
 - » USF - Low Income \$ 500M
- Net Impacts, including Access Reform, USF funding, and flow through -
 - » LEC Impact - \$(1436M)
 - » IXC Impact (cost decrease)- \$ 190M

July 1998 Price Cap Filing

- Est. Price Cap Reduction - (\$925M)
- Est. Exogenous Changes - \$154M
- Net Price Cap Reduction - (\$771M)

- Assumptions
 - » Inflation @ 2.2%
 - » Non-IXC Basket impacts only
 - » USF obligations included in revenues subject to price cap reductions (subject to industry PFR)
 - » All price cap reductions flow through to IXC's

July 1998 Price Cap Filing

- Est. Price Cap Reduction - (\$890M)
- Est. Exogenous Changes - \$150M
- Net Price Cap Reduction - (\$740M)

- Assumptions
 - » Inflation @ 2.2%
 - » Non-IXC Basket impacts only
 - » USF obligations not included in revenues subject to price cap reductions (subject to industry PFR)
 - » All price cap reductions flow through to IXC's

July 1998 Price Cap Filing

Estimated impacts

- Scenario I:
 - » USF funded at \$2.25B annual rate for Education, at \$100M for Healthcare; no change for High Cost and Low Income
- Increase in Education - \$950M
- Increase in Healthcare - -
- Net LEC Price Cap reduction - (\$771M)
- LEC Impact - (\$754M)
- IXC Impact (increase) \$21M
- Education USF Funded (1998) - \$1750M
- Healthcare USF Funded (1998) - \$100M

July 1998 Price Cap Filing

Estimated impacts

- Scenario II:
 - » USF funded for Education at level offset by Price Cap reductions
- Increase in Education - \$925M
- Increase in Healthcare - -
- Net LEC Price Cap reduction - (\$771M)
- LEC Impact - (\$755M)
- IXC Impact - -
- Education USF Funded (1998) - \$1738M
- Healthcare USF Funded (1998) - \$100M

July 1998 Price Cap Filing

Estimated impacts

- Scenario II A :
 - » USF funded for Education at level offset by Price Cap reductions;
 - » USF Obligations not subject to Price Cap reductions
- Increase in Education - \$888M
- Increase in Healthcare - -
- Net LEC Price Cap reduction - (\$740M)
- LEC Impact - (\$724M)
- IXC Impact - -
- Education USF Funded (1998) - \$1719M
- Healthcare USF Funded (1998) - \$100M

Chart 2a

Jul-98									
Normalize USF Funding Over 7/98 to 7/99									
USF Included in LEC Revenue for PC Reduction Calculation									
Universal Service Funding		LECs		IXCs		Other		Consumers	Total
Education & Healthcare		\$ (391)		\$ (405)		\$ (155)		\$ -	\$ (951)
Lifeline & High Cost		\$ -		\$ -		\$ -		\$ -	\$ -
<u>Eliminate Old Fund</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>
Sub Total		\$ (391)		\$ (405)		\$ (155)		\$ -	\$ (951)
SLC Increases		\$ -						\$ -	\$ -
Access Rates									
Usage:									
LTS & DEM		\$ -		\$ -					\$ -
Access Reform/Price Cap		\$ (771)		\$ 771					\$ -
USF Flow Through		\$ 368		\$ (368)					\$ -
PICCs:									
Access Reform		\$ -		\$ -					\$ -
Other Trunking									
Access Reform		\$ -		\$ -					\$ -
USF Flow Through		\$ 30		\$ (20)				\$ (10)	\$ -
LEC Toll Rates									\$ -
Access Reform		\$ (3)		\$ -				\$ 3	\$ -
<u>USF Flow Through</u>		<u>\$ 13</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ (18)</u>	<u>\$ (5)</u>
Sub Total		\$ (363)		\$ 384		\$ -		\$ (26)	\$ (5)
Total		\$ (754)		\$ (21)		\$ (155)		\$ (26)	\$ (956)

Jul-98									
Neutralize Impact to IXC's									
USF Included in LEC Revenue for PC Reduction Calculation									
Universal Service Funding	LECs	IXCs	Other	Consumers	Total				
Education & Healthcare	\$ (380)	\$ (394)	\$ (151)	\$ -	\$ (925)				
Lifeline & High Cost	\$ -	\$ -	\$ -	\$ -	\$ -				
<u>Eliminate Old Fund</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
Sub Total	\$ (380)	\$ (394)	\$ (151)	\$ -	\$ (925)				
SLC Increases	\$ -			\$ -	\$ -				
Access Rates									
Usage:									
LTS & DEM	\$ -	\$ -			\$ -				
Access Reform/Price Cap	\$ (771)	\$ 771			\$ -				
USF Flow Through	\$ 358	\$ (358)			\$ -				
PICCs:									
Access Reform	\$ -	\$ -			\$ -				
Other Trunking									
Access Reform	\$ -	\$ -			\$ -				
USF Flow Through	\$ 29	\$ (19)		\$ (10)	\$ -				
LEC Toll Rates					\$ -				
Access Reform	\$ (3)	\$ -		\$ 3	\$ -				
<u>USF Flow Through</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (18)</u>	<u>\$ (5)</u>				
Sub Total	\$ (374)	\$ 394	\$ -	\$ (25)	\$ (5)				
Total	\$ (755)	\$ 0	\$ (151)	\$ (25)	\$ (930)				

Jul-98									
Neutralize Impact to IXC's									
USF Removed from LEC Revenue for PC Reduction Calculation									
Universal Service Funding		LECs	IXCs	Other	Consumers		Total		
Education & Healthcare		\$ (365)	\$ (378)	\$ (145)	\$ -		\$ (888)		
Lifeline & High Cost		\$ -	\$ -	\$ -	\$ -		\$ -		
Eliminate Old Fund		\$ -	\$ -	\$ -	\$ -		\$ -		
Sub Total		\$ (365)	\$ (378)	\$ (145)	\$ -		\$ (888)		
SLC Increases		\$ -			\$ -		\$ -		
Access Rates									
Usage:									
LTS & DEM		\$ -	\$ -				\$ -		
Access Reform/Price Cap		\$ (740)	\$ 740				\$ -		
USF Flow Through		\$ 343	\$ (343)				\$ -		
PICCs:									
Access Reform		\$ -	\$ -				\$ -		
Other Trunking									
Access Reform		\$ -	\$ -				\$ -		
USF Flow Through		\$ 28	\$ (19)		\$ (9)		\$ -		
LEC Toll Rates							\$ -		
Access Reform		\$ (3)	\$ -		\$ 3		\$ -		
USF Flow Through		\$ 13	\$ -	\$ -	\$ (18)		\$ (6)		
Sub Total		\$ (359)	\$ 378	\$ -	\$ (25)		\$ (6)		
Total		\$ (724)	\$ (0)	\$ (145)	\$ (25)		\$ (894)		